Rehmann Live!
Hot Topics in Not-for-Profit

Presented by:
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Not-for-Profit Financial Reporting Model

Presented by:

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Principal

- Rehmann’s Not-for-Profit Director
- Experience includes planning, performing and supervising audit and internal audit engagements for non-profits, higher education, manufacturers and insurance organizations
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Financial Reporting Model

• Background

• Proposed Changes

• Current Status
Financial Reporting Model - Background

- November 2011, FASB Not-for-Profit Advisory Committee added this project to its agenda
- Desire comparability among not-for-profit entities’ financial statements
- Areas for improvement:
  - Net asset classifications
  - Statement of Activities and Statement of Cash Flows
  - Tell the story of the organization
- Applicable to not-for-profit organizations as well as private colleges
Financial Reporting Model - Proposed Changes

• Net Asset Classes
  – Net assets with donor restrictions
  – Net assets without donor restrictions

• Endowment Note
  – Underwater endowments – remove requirement to reduce unrestricted net assets accordingly

• Use of Operating Metrics
  – Mission
  – Availability
  – Presentation on Statement of Activities
Financial Reporting Model - Proposed Changes

- Expenses
  - Functional and natural classification

- Cash Flow Statement
  - Direct method with no indirect reconciliation
  - Preparation time is not significantly higher, less time educating board members, increased comparability

- Management discussion and analysis – removed

- Investment Expenses
Financial Reporting Model - Current Status

• Exposure draft expected by end of 2014 with final pronouncement expected in 2015.

• FASB recently obtained update on project from NAC

• Complexities
  – Transfer unrestricted gifts of capital assets out of current operations only to transfer in at later date when assets are used
  – Reporting long-lived assets in operating section of cash flow statement
  – Reporting transfers for board designations and capital transactions on statement of activities
Thank you!
Transparency in Financial Reporting

Presented by:
Christine Slade, CPA
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Senior Manager

- Rehmann
- Auditor for industries such as non-profit, manufacturing and distribution
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Connectivity and Transparency

• Places where your financial information is presented:
  – Annual report (often summarized from your financial statements)
  – Audited financial statements linked to your website
  – 990 filings available via your website or Guidestar
What’s Going On In the Marketplace?

• Mega foundations like Markets for Good are looking for ways to create consistency to allow donors “evaluate” a NFP

• Donors are getting more tech savvy and want to make sure their donations are going where they are most impactful
  – Some nonprofits are better than others
  – Some donors are better than others
What Should You Do To Increase Transparency & Consistency?

• Make sure your mission and programmatic descriptions are aligned between the financial statements, 990, and website

• Make sure that you understand the difference in reporting between the financial statements and 990:
  – In-Kind
  – Unrealized losses/gains

• Reconcile your statement of activities to your 990 presentation and make sure that your categories are consistent
What Should You Do To Increase Transparency & Consistency?

• Review programmatic metrics or statements on your website and make sure they are in alignment with your financial statements

• Be honest about what it takes to run your programs from a management and general expense perspective

• Make sure you review functional allocations regularly to ensure they continue to represent the organization’s activities

• Consider discussing allocation of costs with your CPA firm
Five Common NFP Transparency & Consistency Related Reporting Issues

1. 990 and FS not in alignment
2. Failure to disclose fundraising costs when the organization has a “contribution” revenue line item
3. Failure to report programmatic expense on the statements of activities (failure to allocate depreciation, interest, etc.)
4. Inadequate program line items on the statement of functional expenses
5. Not enough focus on the unrestricted activities column to enable users to understand operations
Other Financial Reporting Considerations

• Statement of Financial Position
  – Consider using a sequencing approach to the ordering i.e., “an unclassified” balance sheet
  – Group insignificant items to simplify presentation
  – Make it clear to the reader the components of net assets
Other Financial Reporting Considerations

• Statement of Activities
  – Group insignificant items
  – Consider an operating measure if appropriate to enhance understanding of operational vs. non-operational gains and losses
NFP Oversight Organizations

• Be aware of recent changes in data collection

• New GuideStar Exchange profile is much more elaborate than traditional review of information collected via 990’s
  – Includes board information
  – Ethics and transparency
  – Other governance issues
  – Attempt to look at overall organization and their capability to perform their work, including information on accomplishments and effectiveness.
Other Trends

• Look to national charities to utilize some of the public company world strategies to get the word out
  – “Investor calls”- results of operations, strategies, etc.
  – Web-conferences to tell the state of the organization
  – More real time dissemination of data to the donors

• Show your impact
Thank you!
IRS Hot Topics

Presented by: Kris C. Bottles, CPA
Kris C. Bottles, CPA

Principal
• Rehmann
• Focuses her tax work on not-for-profit entities along with closely held businesses and individual taxation
  – Began her career in the tax area focused on tax compliance and tax planning for both corporations and individuals
• Experience at both national and local CPA firms and industry

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During the 2014 AICPA Not-for Profit Industry Conference, the new IRS Director of Exempt Organizations, Tamera Ripperda, led a session titled “IRS Moving Forward.”

Ripperda, who began her career with the IRS in 1988, is committed to streamlining the division with a keen eye on customer service.

Key information on the division:

- The division has approximately 800 employees who are responsible for reviewing applications for tax exempt status, developing guidance & rulings, conducting examinations & other compliance activity and providing customer education and outreach.

- In any given year the division is likely to receive 60k – 70k applications for Recognition of Exemption under §501.
  - Nearly 80% are 501(c)(3) entities, religious or charitable
  - Applications are looked at on a first in, first out basis
The IRS automatically revokes an organization’s tax exempt status if there is no record of a Form 990 filing for three consecutive years. This includes Form 990-N (online postcard), 990-EZ and 990.

To date, more than 550,000 organizations have had their tax exempt status revoked. Of those, 50,000 have applied for and been granted reinstatement.

Reinstatement is costly and time consuming.
• Ripperda introduced streamlined Form 1023EZ
  – Shorter version of the original application for tax-exempt status, Form 1023.
    • 28 page application reduced to 3 pages
    • User fee reduced from $850 to $400
    • Must submit on-line at www.pay.gov

• Eligible organizations must answer “NO” to 26 questions found in the instructions to qualify.
  – Major questions include:
    • Entities that expect to file Form 990N
    • Assets less than $250,000
    • Annual gross receipts of $50,000 or less for past 3 years or next 3 years
    • Entity is not a church, school, or hospital
The 2014-2015 Priority Guidance Plan developed by the IRS and the Department of Treasury

- This plan identifies and prioritizes tax issues through regulations, revenue rulings and procedures, notices and other published administrative guidance.
- Current document lists 317 projects in 15 different categories

The Exempt Organizations category lists 16 projects to be addressed:

- Revenue Procedures updating grantor and contributor reliance criteria under §§170 and 509
  - The IRS has provided the extent to which contributors may rely on the following for the purposes of deducting contributions under §170 and making grants under §4942
    - May rely on IRS’s Pub 78 which is now in electronic form called EO Select Check; [http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check](http://www.irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check)

- Revenue procedure to update Revenue Procedure 2011-33 for EO Select Check
  - Clarifies that the IRS may give notice of revocation through an appropriate public announcement, such as publication in the Internal Revenue Bulletin or on the IRS’s website at [www.irs.gov](http://www.irs.gov)
2014-2015 Priority Guidance Plan Released Cont’d

- Streamlined application process with 1023-EZ to apply for recognition of tax-exempt status under §501
  - Previously discussed

- Revenue procedure setting forth procedures for issuing determination letters on exempt status under §501(c)(3) to eligible organizations that submit Form 1023EZ
  - This revenue procedure sets forth procedures for applying for and for issuing determination letters on the exempt status under §501(c)(3)

- Proposed regulations under §501(c) relating to political campaign intervention
  - All §501(c)(3) organizations are absolutely prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of any candidate for elective public office
2014-2015 Priority Guidance Plan Released Cont'd

• Final regulations on application for recognition of tax exemption as a qualified nonprofit health insurer under §501(c)(29) as added by §1322 of the Affordable Care Act
  – Provides requirements for tax exemption for qualified non-profit insurance issuers

• Final regulations under §§501(r) and 6033 on additional requirements for charitable hospitals as added by §9007 of the Affordable Care Act
  – New requirements that hospital organizations must satisfy in order to be described in §501(c)(3), as well as new reporting and excise taxes

• Additional guidance on §509(a)(3) supporting organizations
  – Supporting organizations are entities that provide support to one or more supported organizations. They must satisfy several tests in addition to having a relationship with their supported organization.
2014–2015 Priority Guidance Plan Released Cont’d

• Guidance under §512 regarding methods of allocating expenses relating to dual use facilities
  – Guidance for unrelated business taxable income regarding methods of allocation of expenses relating to dual use facilities

• Guidance under §4941 regarding a private foundation’s investment in a partnership in which disqualified persons are also partners
  – Regarding taxes on self-dealings
  – A private foundation should be very cautious in entering into a partnership that includes disqualified persons

• Final regulations under §§4942 and 4945 on reliance standards for making good faith determinations
  – Discusses standards for making good faith determination that a foreign organization is a charitable organization, grants to which may be qualifying distributions and not taxable expenditures.
2014-2015 Priority Guidance Plan Released Cont’d

• Final regulations under §4944 on program-related investments and other related guidance
  – Provides a series of new examples illustrating investments that qualify as program-related investments

• Guidance regarding the excise taxes on donor-advised funds and fund management
  – Donor-advised funds are subject to new requirements

• Guidance under §6033 relating to the reporting of contributions
  – Guidance for reporting of contributions by exempt organizations

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• Final regulations under §6104(c)
  – Provides guidance to states regarding the process by which they may obtain or inspect certain returns and return information for the purpose of administering state laws governing certain tax-exempt organizations and their activities

• Final regulations under §7611 relating to church tax inquiries and examinations
  – Discusses special requirements that the IRS has to meet before it can examine the records of a church
New Tangible Property Regulations and Not-for-Profit Organizations

• These new regulations (TPR) relate to the issue of capital expenditures, what must be expensed and what must be capitalized (carried on the balance sheet).

• The TPR’s are very comprehensive and drastically change the rules. Many taxpayers must adopt new accounting methods in order to comply with the regulations.
New Tangible Property Regulations and Not-for-Profit Organizations

• The TPR’s will apply to not-for-profit orgs
  – Since most not-for-profits do not have taxable income, IRS agents are less likely to enforce these regulations because often times there is no adjustment for the government, however,

  – All not-for-profits should implement a written capitalization policy now

  – Not-for-profits with UBI (unrelated business income) filing 990-T should implement the TPR’s
Thank you!
Sponsorships and Unrelated Business Income

Presented by:
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Kerry Nelson, CPA

Principal

• Rehmann
• Experience in providing both accounting and tax services to family owned and closely held businesses, their shareholders and officers
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Corporate Sponsorships

• Payment made to sponsor an event or activity

• May be considered as:
  – Contribution
  – Advertisement

• Need to determine if qualified or not

• Payment means money, property or services
Qualified Sponsorship Payment

• Any payment (money, property or services) from a person engaged in a trade or business

• No arrangement or expectation of substantial return benefit (other than use of name or logo)

QSP ≠ UBIT
QSP - Continued

• QSPs may not be contingent upon:
  – Level of attendance at one or more events
  – Broadcast ratings
  – Other factors indicating degree of public exposure

• QSPs do not include:
  – Acknowledgement in periodicals
  – Payments in connection with a qualified convention or trade show
QSPs – Substantial Return Benefit (SRB)

• Any benefit received by the sponsor other than:
  – Use or acknowledgement
    • Sponsor name/logo
    • Sponsor address/phone number/internet address
    • Brand or trade name
    • Value neutral description of product or services
    • Exclusive sponsor relationship

  – Goods, services or other benefits of insubstantial value (i.e., aggregate FMV of all benefits is < 2% of amount received).
Benefit Defined

- Advertising

- Providing facilities, services or other privileges to the sponsor unless deemed insubstantial

- Exclusive or non-exclusive right to use an intangible (ie: logo, trademark, copyright, etc.)

- Exclusive provider relationships
Advertising

• Message or material that promotes or markets including:
  – Qualitative or comparative
  – Pricing information or other indications of value or savings
  – An endorsement
  – Inducement to purchase, sell or use any service, product or facility
Exclusivity

- Exclusive Provider arrangement: limits the sale, distribution, availability or use of competing products, services or facilities and constitutes an SRB

- Exclusive Sponsor arrangement: limits the type of sponsors but is not an SRB

- Example - $1 million
  - Agreement that provides only Pepsi will be sold is an SRB
  - Agreement that provides Pepsi is the exclusive sponsor is not an SRB
Fair Market Value Of An SRB

• “Price between a willing buyer and a willing seller, neither under any compulsion to enter into the arrangement and both having reasonable knowledge of relevant facts”

• Date is when contract is signed

• If no contract, then when benefit is provided

• Value of a celebrity is $0

• EO needs to establish FMV of the SRB
Hypertext Links

• EO posts sponsor name and internet address on their website with no promotion or advertising – deemed an acknowledgement

• But if it says, “EO endorses sponsor” – deemed an advertisement – FMV exceeds 2% of total payment it is an SRB
Examples

• Example #1
  – Exempt Org enters into a 5 year contract on 6/30/10
  – Sponsor will make $5,000 annual payments
  – Sponsor will receive an annual ad
  – On 6/30/10, the ad is valued at $75 - <2% of value so no SRB

• Example #2
  – 2010 is for a $5,000 initial payment and annual $1,000 for remaining years.
  – 2011 ad is valued at $75 which exceeds 2% of $1,000 payment so $925 is QSP and $75 advertising and considered UBI
Examples

• Marathon
  – Named for a sponsor
  – Sponsor provides drinks and refreshments free of charge
  – Sponsor provides prizes
  – Sponsor listed in fliers, newspapers and on t-shirts

QSP or SRB????
Examples

• Art Exhibition
  – Sponsor’s name and logo in brochure, on posters, banners and in announcements
  – EO hosts dinner for the sponsor valued at more than 2% of sponsor payment
  – Dinner is SRB and only portion of payment that EO can demonstrate exceeds FMV of dinner is QSP
SkyBooks

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SkyBooks

Rehmann’s Cloud Based Accounting and Financial Management Solution

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To Enhance Business Wisdom

Dashboards

- Customizable
- At-a-glance insight into the business
- Monitor the pulse of the business, track key performance indicators
Streamline your payables and receivables process end-to-end

- Receive and pay bills online
- Invoice online and get paid faster
- Store and share financial documents online
- Sync with your accounting software
- Manage and control your cash flow
Streamlined Workflow

The Old Workflow:
Required a minimum of 8 touches by 5+ people and took a week to complete

1. Receive, open and distribute invoice
2. Review and approve bill
3. Code bill
4. Review coding
5. Enter bill, generate report
6. Indicate bill ready to paid in cash
7. Print, sign, and mail checks
8. File paperwork

Our New Efficient Workflow
New process requires 5 touches by 5+ people yet takes 1 day

1. Send bill web address
2. Enter bill & route for approval
3. Review & approve for payment
4. Schedule payment
5. Review all transactions online
Mobility

Daily tasks while on the go

- View/approve bills
- Document storage
- Invoice online & get paid faster
- Make secure payments
  - Multiple bank accounts
  - Adjustable payment timing
  - Reduce bank account circulation
Q&A Session
Thank you!

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